

City and County of San Francisco

Office of the Controller – City Services Auditor

AIRPORT COMMISSION:

Compliance Audit of AirTran Airways, Inc.

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September 17, 2008

**CONTROLLER'S OFFICE
CITY SERVICES AUDITOR**

The City Services Auditor was created within the Controller's Office through an amendment to the City Charter that was approved by voters in November 2003. Under Appendix F to the City Charter, the City Services Auditor has broad authority for:

- Reporting on the level and effectiveness of San Francisco's public services and benchmarking the city to other public agencies and jurisdictions.
- Conducting financial and performance audits of city departments, contractors, and functions to assess efficiency and effectiveness of processes and services.
- Operating a whistleblower hotline and website and investigating reports of waste, fraud, and abuse of city resources.
- Ensuring the financial integrity and improving the overall performance and efficiency of city government.

The audits unit conducts financial audits, attestation engagements, and performance audits. Financial audits address the financial integrity of both city departments and contractors and provide reasonable assurance about whether financial statements are presented fairly in all material aspects in conformity with generally accepted accounting principles. Attestation engagements examine, review, or perform procedures on a broad range of subjects such as internal controls; compliance with requirements of specified laws, regulations, rules, contracts, or grants; and the reliability of performance measures. Performance audits focus primarily on assessment of city services and processes, providing recommendations to improve department operations.

We conduct our audits in accordance with the Government Auditing Standards published by the U.S. Government Accountability Office (GAO). These standards require:

- Independence of audit staff and the audit organization.
- Objectivity of the auditors performing the work.
- Competent staff, including continuing professional education.
- Quality control procedures to provide reasonable assurance of compliance with the auditing standards.

Audit Team: Elisa Sullivan, Audit Manager
Edwin De Jesus, Associate Auditor



CITY AND COUNTY OF SAN FRANCISCO
OFFICE OF THE CONTROLLER

Ben Rosenfield
Controller

Monique Zmuda
Deputy Controller

September 17, 2008

San Francisco Airport Commission
P.O. Box 8097
San Francisco International Airport
San Francisco, CA 94128-8097

President and Members:

The Controller's Office, City Services Auditor, presents its report concerning the compliance audit of AirTran Airways, Inc. (AirTran). AirTran has an airline operating permit from the Airport Commission of the City and County of San Francisco to use the landing facilities at the San Francisco International Airport for its air transportation business.

Reporting Period: July 1, 2004, through June 30, 2007

Landing Fees Paid: \$897,817

Results:

AirTran reported 2,136 revenue aircraft landings, and paid \$897,817 in landing fees to the Airport. However, it did not comply with certain provisions of its permit by not keeping complete records of its Airport operations (for a period of five years after the termination of its permit) and by reporting its aircraft departures instead of its aircraft arrivals. Further, although we found that AirTran reported 13 more aircraft landings to the Airport than the total landings reflected in its monthly summary of daily aircraft landings, we were not able to verify the reason for the over reported landings due to the lack of detailed records.

AirTran's response and the Airport's response are attached to this report. The Controller's Office, City Services Auditor, will work with the Airport to follow up on the status of the recommendations made in this report.

Respectfully submitted,

Robert Tarsia
Deputy Audit Director

cc: Mayor
Board of Supervisors
Civil Grand Jury
Budget Analyst
Public Library

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INTRODUCTION

Audit Authority

The Office of the Controller (Controller) has authority under the San Francisco Administrative Code, Chapter 10, Article 1, Section 10.6-2 to audit, at regular intervals, all leases of city-owned real property where rent of \$100,000 or more a year is to be paid to the City. In addition, the City Charter provides the Controller, City Services Auditor (CSA), with broad authority to conduct audits. We conducted this audit under that authority and pursuant to an audit plan agreed to by the Controller and the Airport.

Background

AirTran Airways, Inc. (AirTran) has an airline operating permit from the Airport Commission (Commission) of the City and County of San Francisco to use the landing facilities at the San Francisco International Airport (SFO) for AirTran's air transportation business. The permit, which commenced on November 1, 2003, requires AirTran to submit to the Airport Department (Airport) a monthly report showing AirTran's actual revenue aircraft landings by aircraft type and other landing data necessary to calculate the landing fees. The Airport charges AirTran a landing fee based on the maximum landing weight of its revenue aircraft landings at SFO. These landings are those for which AirTran has received or made a monetary fee or charge. For every 1,000 pounds of aircraft landed, the Commission sets a fee that it may change annually. During our audit period, the Airport's fee per 1,000 pounds was \$3.214 for fiscal year 2004-05, \$3.213 for fiscal year 2005-06, and \$3.336 for fiscal year 2006-07.

Scope and Methodology

The purpose of this audit was to determine if AirTran complied with the reporting and payment provisions of its operating permit. Our audit period was from July 1, 2004, through June 30, 2007.

To conduct the audit, we examined the applicable terms of AirTran's permit, and the adequacy of its procedures for recording, summarizing, and reporting revenue aircraft landings. We tested whether AirTran accurately reported its revenue aircraft landings and the maximum landing weights of its aircraft landed at SFO. We also determined whether AirTran had any outstanding payments due to the Airport for the audit period.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

AUDIT RESULTS

AirTran Did Not Comply With Certain Provisions of Its Operating Permit

From July 1, 2004, through June 30, 2007, AirTran reported 2,136 revenue aircraft landings and paid \$897,817 in landing fees to the Airport. The exhibit below shows AirTran's total reported revenue aircraft landings and the associated landing fees.

EXHIBIT		Number of Reported Landings and Landing Fees Paid July 1, 2004, Through June 30, 2007			
Period/Aircraft Type	Landing Weight (in lbs)	# of Landings	Total Landing Weight (in lbs)	Rate per 1,000 lbs	Landing Fees Due
July 1, 2004, through June 30, 2005					
717-200	102,000	1	102,000	3.214	\$ 328
737NG	128,000	478	61,184,000	3.214	196,645
A-320	142,000	135	19,170,000	3.214	61,612
July 1, 2005, through June 30, 2006					
737NG	128,000	678	86,784,000	3.213	278,837
July 1, 2006, through June 30, 2007					
737NG	128,000	844	108,032,000	3.336	360,395
Total		2,136	275,272,000		\$897,817

Source: Airport reports on landing fees and aircraft landings.

AirTran did not comply with certain provisions of its operating permit by not keeping complete records of its operations at the Airport. In particular, AirTran was unable to provide us its Operational Performance Summary reports that it used to prepare the Monthly Air Traffic Activity Reports (MATARs) submitted to the Airport during the audit period. In addition, AirTran could not provide documentation of the cancelled flights, which AirTran's station manager said could possibly explain the difference in the reported aircraft landings and the landings on its monthly summary report. AirTran's operating permit requires it to maintain records pertaining to its operations at the Airport for a period of five years after the termination of its permit. According to AirTran's station manager, AirTran keeps records in its system for only 90 days. She further stated that this is in compliance with the Federal Aviation Administration's regulations.

AirTran Made Minor Errors in Reporting Aircraft Landings

When we compared the MATARs submitted to the Airport to AirTran's monthly summary reports, we found that AirTran reported 13 more aircraft landings to the Airport than it had on its monthly summary reports. According to AirTran's station manager, when preparing the MATARs, AirTran used a report of aircraft departures instead of aircraft landings. However, AirTran's operating permit requires it to report revenue aircraft arrivals, upon which its landing fees are based. AirTran's Station Manager further stated that AirTran does not keep aircraft at the Airport and that for every departure there must be a landing. However, we believe the monthly departure report may not be an accurate record of AirTran's aircraft landings, because it could include non-revenue landings. As a result of the lack of detailed records, we are unable to verify and document the cause of the discrepancies.

Recommendations

The Airport should take the following actions:

1. Require AirTran to keep all records pertaining to its operations for five years after the termination of its permit, and in particular those records that will support the information reported on its MATARs.
2. Advise AirTran to prepare its MATARs using aircraft landing reports instead of departure reports, and to document its non-revenue landings, if any.

ATTACHMENT: AIRPORT RESPONSE



San Francisco International Airport

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August 26, 2008

AIRPORT
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Mr. Robert Tarsia
Deputy Audit Director
City Hall, Room 476
1 Dr. Carlton B. Goodlett Place
San Francisco, CA 94102

Subject: Air Tran Airways, Inc.

Dear Robert:

The Airport agrees on the audit findings and will implement the recommendations per the attached audit response and recommendation form.

If you have any questions, please feel free to call me at (650) 821-4533.

Sincerely,

A handwritten signature in black ink, appearing to read "Teresa Rivor".

Teresa Rivor
Senior Property Manager
Aviation Management

Attachment

Recommendation	Responsible Agency	Response
1. The Airport should require AirTran to keep all records pertaining to its operations for five years after the termination of its permit.	Aviation Management	Agree. Upon formal distribution of report to tenant, staff will prepare letter requiring tenant to comply with operating permit.
2. The Airport should advise AirTran to prepare its MATARs using aircraft landing reports instead of departure reports, and to document its non-revenue landings, if any.	Aviation Management	Agree. Upon formal distribution of report to tenant, staff will prepare letter requiring tenant to copy with Operating Permit.

ATTACHMENT: AIRTRAN RESPONSE

Comments provided via email.

1. AirTran does have copies of all MATARs since AirTran began service to SFO. However, the MATAR does not have a section for the documentation of tail numbers. A list of our fleet tail numbers for our 737 aircraft is available from our system SOC in Orlando.
2. AirTran will prepare the MATAR using landing reports; however, I must mention that AirTran does not house any aircraft here at SFO, thus for every departure there is a landing.
3. Current AirTran Station Management has implemented an Excel spreadsheet to document tail numbers and landings, where the SFO MATAR does not.

Danielle Thomas
AirTran Station Manager

